

CIDS

CCP Global - International Default Simulation

Introduction and Context

- Clearing member default simulations, often called “default simulations” or “fire drills”, are performed at least annually by CCPs to confirm the readiness of a CCP’s default management structure
- The purpose of a default simulation is to check that operationally, the plans that a CCP and its participants have in place for managing an actual member default are fit for purpose
- Such tests are distinct from stress testing which validates the financial resources of a CCP
- During simulations, CCPs test the operational readiness of their staff, procedures, IT systems, clearing members and clients, or part thereof
- CCPs may also conduct more limited scope of fire drills, such as testing new members, staff or systems, particularly new systems. CCPs may also conduct broader business continuity tests, and these may overlap in part with member default simulations
- Certain CCP Global members have conducted simulations with other CCPs. Some regulators have also arranged for multi-CCP default simulations
- Going forward, CCP Global members have proposed to coordinate timing for their primary annual default simulation, and other members have sought to participate in a wider simultaneous default simulation

General Framework for CIDS

CIDS exercise is led by CCP Global

- Coordination through an association, for the scenario and any debrief, will be more efficient and beneficial to the industry as a whole than for CCPs to arrange their simulation exercises separately

The CIDS exercise aims to

- Test the communication channels, risk management coordination between CCPs and their members
- Test the operational readiness of the CCPs' procedures, that of their participants, and provide an opportunity to review the sufficiency of the procedures
- Allow other CCPs to observe the simulation, and adapt lessons learned and best practices in the post-simulation reviews

The outcome of the default simulation will

- Provide a chance to share the default management best practices among CCPs, integrating these with previous work on Cat 1 and 2
- Identify areas of potential interest for follow-on work, in particular assisting CCPs that do not conduct regular simulations
- Highlight fire drill insights for SSBs and regulators in the form of a summary report, including a suitable aggregate common performance matrix

The future plan will

- Include scenarios that create more similarity or interdependency when CCPs and their participants are tested procedures and operations
- Create a regular joint CCP default simulation (i.e. annual/ biennial)
- Seek a greater number of CCPs to join the exercise
- Come up standardized disclosure on the simulation outcome (subject to information which can be shared)

Roles of CCP Global and Participating Members

- The CCP Global Office will help in
 - Scheduling a joint default simulation exercise (setting up the scene and coordination)
 - Enabling CCPs, to the degree suitable, to jointly develop the contours of the simulation and a high level common narrative
 - Communicating with authorities and other industry bodies on the plan
 - Drafting, discussing and sharing lessons learned after the exercise
 - Developing what types of information, and to what degree, should be shared amongst CCPs, across regulators, and participants
- CCP Global members participating in the CIDS are expected to
 - Run the simulation according to the high level common narrative
 - Communicate with their own regulators and participants on the specifics of their simulation
 - Run their particular default management tests within the agreed time period
 - Carefully consider what level of information is suitable for sharing, and beneficial for best practices
 - Prepare feedback for others following the simulation, for instance outlining the approach used or a discussion of best practices (for the debrief and for public information)

2023 CIDS Plan

- Participation:
 - 15 CCP Global members and 7 non-CCP Global member CCPs will run the default simulation (Total 31 CCPs)
- Date:
 - Start on 13 Nov 2023 (Monday) if practical, until the end of the default management process as planned by CCPs
- Approach:
 - CCP Global members agree to high level commonality in the approach to the joint simulation.
 - The proposal is to have a high-level common narrative, i.e. a hypothetical common clearing member (name is **A.C.M.E***), who is one of the top 5 largest at each of the CCPs, defaults in a market scenario. The default occurs at the starting times for each of the CCPs according to their time-zone.
 - CCPs will define their own scenarios (whether stressed or not) and portfolios that impact them the most, including account types, asset classes, size of exposures, the defaulting member's legal entity set-up, client setup, etc.
 - The aspects tested by each CCP should cover their core default management actions, including portfolio evaluation, simulating risk reduction and re-balancing (trading, hedging, and/or auctions), communication channels and any relevant technical tools.
 - CCPs are welcome to add “modules” of operational aspects to test simultaneously or as part of the scenario (e.g. porting clients).
 - Participating CCPs will have the flexibility to do something different or participate on a limited basis, preferably under the high level common narrative. This may be the case in particular if a CCP has already run a comprehensive simulation in 2023.

*A Clearing Member Everywhere

CIDS Overview

